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April 3, 1956

Briefing Paper for Council on Foreign Economic Policy

Subject: Review of Multilateral Export Controls on Trade with Communist China.

1. The matter under discussion this afternoon was initiated by the Secretary of State on December 8 in a letter to the President advising that "our efforts to maintain the current differential export control towards Communist China have passed the state of being divisive; they present us with the prospect of total disintegration of the multilateral control system." He requested authorization "to begin negotiations as soon as possible with the U. K. and other interested countries as appropriate with the aim of preserving the multilateral control system."

2. The President asked the Secretary of State to urge the British Government to defer unilateral action on this subject until it could be discussed at the then forthcoming meeting of the President with the British Prime Minister scheduled for January 31, 1956. The President then requested the CFEP to prepare a negotiating position that could be used with the British Prime Minister concerning the multilateral control system. The CFEP on January 26 recommended the following positions for negotiating with the U. K. and other countries:

a. The United States should advise the United Kingdom that:

(1) The United States intends to make no change in its own policy of complete embargo against Communist China; and

(2) The United States considers it would be unwise for the Free World at this time to yield any softening of the multilateral export controls against Communist China; that, in fact, the United States believes, if any change were to be made now, it would be more appropriate to strengthen Free World trade controls against both Communist China and the European Soviet bloc.

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b. If, however, some concession must be made now to preserve agreement in the multilateral control system:

(1) That the United States offer to acquiesce only in a minimum adjustment whereby some nineteen listings, selected, in part, from the recent Japanese exception request, would be dropped from the multilateral China embargo; that the United States also arrange with Japan to support exceptions for her to export certain wooden fishing vessels; and

(2) That, as a corollary and in order at the same time to resolve the current major controversies in the Paris strategic controls organization, the United States obtain British consent to restoration of effective controls over copper wire exports to the European Soviet bloc and to establishment of the quantitative control plan over List II ships previously found acceptable by other Consultative Group countries.

c. If adherence cannot be won to either of these alternative positions, the United States should nevertheless not yield any further concession, but should stand firm against relaxation of the China trade controls, unless and until it becomes apparent that further maintenance of this position would result in collapse of the multilateral trade control structure, in which event the United States position should be reviewed.

3. The President met with the Prime Minister on January 31. During the talks, Prime Minister Eden proposed curtailment of the multilateral China control list. He indicated, however, that the British would be satisfied with a partial curtailment if a prompt showing were made of bringing the control lists nearer together. He submitted a list of 87 items on the China list for decontrol to which his Government attached the highest priority. The President apparently believing that the 19 items which the CFEP had approved for decontrol were not sufficient to negotiate with the British, advised the Prime Minister that he would ask his experts to examine the British proposals.

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4. The President, on January 31, 1956, requested the Council on Foreign Economic Policy to review a list of items on the ChinCom List submitted for decontrol by the British Prime Minister and make recommendations as to whether adjustments could be made in the ChinCom List to the net benefit of the Free World. As a first step in this review, the EDAC was requested to appraise the items on the ChinCom List to determine

- a. Items of greatest and least advantage to the military potential of China;
- b. Items the export of which would be of particular immediate or relatively immediate advantage to Free World governments other than Japan and the United States; and
- c. Items the export of which would be of particular immediate or relatively immediate advantage to Japan.

5. EDAC complied with the above request in a report dated February 29, 1956, which was transmitted to Council members on March 2, 1956, as CFEP 501/info. This agreed report listed 34 items out of the ChinCom list of 247 as being of least advantage to the military potential of Communist China. Of these 34 items, 7 were on the list the British proposed for decontrol and 10 were suggested for decontrol by the Japanese.

6. On March 2, 1956, EDAC was requested to classify the items on the ChinCom List into three groups in the ascending order of strategic and economic importance to Communist China and prepare a recommended U. S. negotiating position to be used in negotiations with the British and other countries on this subject.

7. EDAC's report and recommendations on the above request was distributed as CFEP 501/9 on March 24, 1956. In this review EDAC has placed 37 items in the lowest group (List A, least significance), 43 items in the next higher group (List B, average significance) and 166 in the highest group (List C, greatest significance). List A covers 15 items of the 134 on the Japanese list and 11 of the 89 on the British list. Lists A and B together cover 36 items on the Japanese list and 29 on the British.

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8. Full agreement could not be reached in EDAC with respect to a U. S. negotiating position. The recommended negotiating positions for maintaining the multilateral control system are as follows:

a. State, ICA and ICA/MDAC recommend that the United States agree, to the extent necessary, to decontrol of 80 items (Lists A and B) on the ChinCom list plus wooden shipping vessels for Japan and to place natural rubber under surveillance. The United States would seek agreement for the negotiating objectives in Section VI of the EDAC report, but these objectives are not quid pro quo for U. S. concessions.

b. Treasury and Defense recommend that the U. S. agree to decontrol the items in List A and natural rubber (surveillance) plus wooden fishing vessels and parts of 2 or 3 items of interest to Japan on List B. They would not go beyond these concessions unless the U. K. and Japan support the United States in a Consultative Group meeting for a unified control program substantially narrower in scope than the present China list but substantially broader than the present CoCom list.

c. Commerce would not permit the decontrol of any items (beyond the 19 items agreed on January 26, 1956) except to the extent that they can be traded for negotiating objectives. No specific trades are suggested although Commerce does indicate the order of importance of the negotiating objectives. Commerce proposes that our negotiators obtain the best trades possible and submit them to Washington for evaluation and approval. As an overall condition, Commerce will not agree to any decontrol becoming effective beyond List A unless the Geneva talks with the Chinese Communists are successfully concluded.

9. The alternative positions are contained in Section X of the EDAC report.

10. Attached is a memorandum from the Department of Commerce amending its position in the EDAC report.

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As stated.

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